

Message Text

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ACTION ARA-14

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC NIACT IMMEDIATE 0011

DIA WASHDC NIACT IMMEDIATE

INFO AMEMBASSY QUITO

AMEMBASSY LA PAZ

AMEMBASSY SANTIAGO

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 4158

E.O. 11652: GDS

TAGS: PINT, PE

SUBJECT: GOP ANNOUNCES CABINET SHIFTS

SUMMARY: ON EVENING TELEVISION, MAY 12, THE GOP ANNOUNCED THE RESIGNATION OF FINANCE MINISTER SAENZ, INDUSTRY MINISTER IBANEZ O'BRIEN, AND INTERIOR MINISTER CISNEROS. THE FINANCE AND INDUSTRY MINISTERS WILL GO TO CIVILIANS, JAVIER SILVA RUETE AND GABRIEL LANATA PIAGGIO; THE INTERIOR MINISTRY GOES TO ANOTHER GENERAL, FERNANDO VELIT SABATTINI. ALTHOUGH THERE HAVE BEEN MANY RECENT RUMORS OF A CABINET SHIFT, THE MOVE WAS EARLIER THAN MANY EXPECTED, PARTICULARLY THE DEPARTURE OF CISNEROS. THE ANNOUNCEMENT WAS PRECEDED BY A MAJOR STATEMENT BY PRESIDENT MORALES BURMUDEZ, BROADCAST ON TELEVISION, WHICH CALLED FOR UNITY OF THE ARMED FORCES, FREEDOM OF EXPRESSION, AND MODERATE BUT PRACTICAL RESPONSE TO THE COUNTRY'S ECONOMIC PROBLEMS. THE CHANGE APPEARS TO HAVE BEEN BROUGHT OFF SMOOTHLY, WITH CISNEROS APPARENTLY OFF TO SOME AMBASSADORIAL POST. THE MANEUVER HAS THE TYPICAL DEFT MORALES BURMUDEZ TOUCH OF BALANCING OFF THE

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EXTREME LEFT AND RIGHT WHILE MAINTAINING A CONSENSUS OF THE CENTER: BUSINESS AND CONSERVATIVE PARTIES WILL BE HEARTENED BY THE CIVILIAN ECONOMIC MINISTERS. WHILE THE LEFT IS APPEASED BY THE DEPARTURE OF CISNEROS. FOLLOWING THE DEPARTURE OF CONSERVATIVE INFORMATION MINISTER VINATEA A COUPLE OF WEEKS AGO, THE RESIGNATION OF CISNEROS HAS DECIMATED THE CONSERVATIVE FACTION OF THE CABINET THAT HAS

CAUSED MORALES BURMUDEZ PROBLEMS FOR SEVERAL MONTHS. END SUMMARY.

1. GOP ANNOUNCED MAY 12 THREE CABINET CHANGES: DR. JAVIER SILVA RUETA SUCCEEDS GENERAL SAENZ BARSELLO AS MINISTER OF ECONOMY AND FINANCE; GABRIEL LANATA PIAGGIO REPLACES GENERAL IBANEZ O'BRIEN AS MINISTER OF INDUSTRY, COMMERCE, TOURISM AND INTEGRATION, AND ARMY INTELLIGENCE CHIEF GENERAL FERNANDO VELIT SABATTINI REPLACES GENERAL CISNEROS AS MINISTER OF INTERIOR. THE NEW MINISTERS WILL BE SWORN IN MAY 15. THE CHANGE TO CIVILIANS IN THE ECONOMIC TEAM AND, MORE IMPORTANTLY, THE REMOVAL OF CISNEROS THUS FAR AT LEAST HAVE PRODUCED NO OPEN COUNTER REACTION FROM THE ARMED FORCES; IN FACT, THE MILITARY ALERT IN EFFECT SINCE LAST WEEK (IN ANTICIPATION OF THE TEACHERS' STRIKE) WAS REDUCED IN STATUS MAY 13.

2. THE FOLLOWING ARE BIOGRAPHIC SKETCHES OF THE THREE NEW MINISTERS:

(A) THE NEW MINISTER OF ECONOMY AND FINANCE, JAVIER SILVA RUETE, IS A WELL-RESPECTED ECONOMIST AND LAWYER WITH PREVIOUS CABINET-LEVEL EXPERIENCE. HE SERVED TWICE AS MINISTER OF AGRICULTURE UNDER PRESIDENT BELAUNDE IN THE MID-1960S, ALTHOUGH A MEMBER OF THE CHRISTIAN DEMOCRAT PARTY. AT THE TIME OF HIS FIRST APPOINTMENT HE WAS ONLY 29 YEARS OLD, BUT HAD ALREADY HAD SEVERAL YEARS' EXPERIENCE AS A CENTRAL BANK OFFICIAL FOLLOWING CONFIDENTIAL

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HIS GRADUATION FROM SAN MARCOS UNIVERSITY WITH A DOCTORATE IN ECONOMICS. IN 1966 SILVA RUETE WAS NAMED EXECUTIVE-DIRECTOR OF THE ANCOM JUNTA STAFF, THE HIGHEST-RANKING INTERNATIONAL CIVIL SERVICE APPOINTMENT IN THAT ORGANIZATION. FOR THE PAST 22 MONTHS HE HAS SERVED AS VICE PRESIDENT OF THE ANDEAN DEVELOPMENT CORPORATION (CAF) AND COORDINATOR FOR THE CAF WITH THE ANDEAN PACT JUNTA. THIS AND HIS EARLIER CENTRAL BANK EXPERIENCE HAVE GIVEN HIM WIDESPREAD EXPOSURE IN THE INTERNATIONAL FINANCIAL COMMUNITY, WHERE HE IS REPORTEDLY WELL AND FAVORABLY KNOWN, NOT ONLY TO IFI OFFICIALS BUT ALSO TO INTERNATIONAL COMMERCIAL BANKERS. IN HIS EARLIER YEARS SILVA RUETE WAS A VERY ACTIVE CHRISTIAN DEMOCRAT, AND WAS A CONGRESSIONAL CANDIDATE AT ONE POINT. DURING THE PAST TEN YEARS, HOWEVER, HE HAS NOT PLAYED AN ACTIVE POLITICAL ROLE, BUT RATHER HAS CONCENTRATED HIS CONSIDERABLE TALENTS IN THE AREA OF REGIONAL ECOOMIC INTEGRATION, AND HAS SEMMINGLY AVOIDED PARTISAN POLITICAL ACTIVITIES. HIS ACADEMIC BACKGROUND, IN ADDITION TO HIS STUDIES AT SAN MARCOS, INCLUDES ADVANCED STUDIES IN AGRICULTURAL DEVELOPMENT IN URUGUAY, AND BANKING AND BUSINESS ADMINISTRATION IN ROME. HE IS MARRIED, WITH THREE CHILDREN. AS FAR AS WE HAVE BEEN ABLE TO DETERMINE, HIS KNOWLEDGE OF ENGLISH IS VERY LIMITED.

(B) THE NEW MINISTER OF INDUSTRY, COMMERCE, INTEGRATION AND TOURISM, GABRIEL LANATA PIAGGIO, IS A WELL-REGARDED, APOLITICAL ENTREPRENEUR WHO HAS BEEN VERY SUCCESSFUL IN EXPANDING HIS FAMILY BUSINESS HOLDINGS OVER THE PAST 10-15 YEARS. THE SO-CALLED "PIAGGIO GROUP," WHICH HE HEADS, CONTROLS INTER ALIA THE PILSEN BREWERY (CERVECERIA NACIONAL) COMPLEX, A PLASTICS COMPANY, BUIDLING MATERIALS FACTORY, AND SOME MINING PROPERTY. HE IS KNOWN AS A "MODERN" BUSINESSMAN WHO IS NOT INSENSITIVE TO SOCIAL PROBLEMS, AND REPORTEDLY WORKED AS A CONCILIATING INFLUENCE BETWEEN THE REVOLUTIONARY MILITARY GOVERNMENT DURING ITS "FIRST PHASE" AND MORE CONSERVATION INDUSTRIALISTS. HE HAS BEEN ACTIVE IN CHAMBERS OF COMMERCE AND INDUSTRY AND AS A MEMBER OF THE INSTITUTO PERUANO DE CONFIDENTIAL

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ADMINISTRACION DE EMPRESAS (IPAE) AND HAS PARTICIPATED IN THE ANNUAL CADE JOINT GOVERNMENT-BUSINESS MEETINGS. HE HAS ALSO SERVED AS PRESIDENT OF THE BANCO INDUSTRIAL. WHILE THE PERUVIAN BUSINESS AND FINANCIAL COMMUNITY MIGHT HAVE BEEN MORE PLEASED IF SOME OTHER CIVILIAN HAD BEEN APPOINTED TO THE "SUPER MINISTRY," (FOR EXAMPLE, SOCIEDAD DE INDUSTRIAS PRESIDENT JUAN ANTONIO AGUIRRE ROCA, WHO ACCOMPANIED FONMIN DE LA PUENTE TO WASHINGTON HAD BEEN RUMORED FOR THE JOB AND APPARENTLY TURNED IT DOWN), IT IS OUR IMPRESSION THAT MOST PRIVATE SECTOR PERUVIANS WILL SEE LANATA'S APPOINTMENT AS A FAVORABLE CHANGE.

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TO SECSTATE WASHDC NIACT IMMEDIATE 0012

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INFO AMEMBASSY QUITO
AMEMBASSY LA PAZ
AMEMBASSY SANTIAGO

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(C) THE NEW INTERIOR MINISTER, ARMY BRIG GEN FERNANDO VELIT SABATTINI, IS AN INTELLIGENT, CAPABLE, AND PROFESSIONAL INFANTRY OFFICER WITH A VERY GOOD MILITARY REPUTATION. HE IS HIGHLY RESPECTED BY COLLEAGUES AND JUNIOR OFFICERS AND IS BELIEVED TO BE ONE OF THE MOST HONEST OFFICERS IN THE PERUVIAN ARMY. HE HAS BEEN DIRECTOR OF ARMY INTELLIGENCE SINCE JAN 1977 WHEN HE WAS PROMOTED TO BRIG GEN; HE IS NOT DUE FOR COMPULSORY RETIREMENT UNTIL 1982. DAO CONSIDERS VELIT PRO-US BUT VERY NATIONALISTIC. HE APPEARS TO BE ANTI-COMMUNIST AND REPORTEDLY IS SUSPICIOUS OF CUBANS AND RUSSIANS, BUT DOES NOT OPPOSE PERU'S PURCHASE OF SOVIET MILITARY MATERIEL. HE BELIEVES THAT PERU SHOULD EMPHASIZE ITS ROLE IN LATIN AMERICA RATHER THAN IN THE THIRD WORLD. GEN VELIT IS MORE PROFESSIONALLY THAN POLITICALLY ORIENTED, SOMETHING OF A MILITARY TECHNOCRAT, WHO IS LOYAL TO JOINT COMMAND CHIEF RICHTER PRADA AND IN TURN ENJOYS HIS CONFIDENCE. VELIT ATTENDED AN INTELLIGENCE COURSE IN THE US A FEW YEARS AGO AND WAS SELECTED TO VISIT THE US IN JUNE UNDER DAO AUSPICES.

3. BACKGROUND TO THE CABINET SHIFT. RUMORS OF IMMINENT
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CABINET CHANGES IN THE ECONOMIC SECTOR WERE WIDESPREAD FOR THE PAST WEEK AND GREW IN INTENSITY WITH FOREIGN MINISTER DE LA PUENTE'S RETURN FROM WASHINGTON (SEE LIMA 4152); IT WAS GENERALLY BELIEVED THAT A MOVE TOWARD A "TECHNOCRATIC" ECONOMIC TEAM WAS FORTHCOMING TO IMPROVE RELATIONS WITH THE IMF AND THE INTERNATIONAL BANKING COMMUNITY. AND OF COURSE, THE CONTROVERSIAL, RIGHTIST CISNEROS, HAD BEEN PERIODICALLY RUMORED TO BE ON HIS WAY OUT FOR SEVERAL MONTHS, WAS UNDER HEAVY ATTACK FROM THE LEFT, AND REPORTEDLY HAD INCURRED THE DISPLEASURE OF THE PRESIDENT FOR HIS HARD-LINE STANCE ON A NUMBER OF POLITICAL AND LABOR ISSUES. ON MAY 11, THE MILITARY JUNTA MET AND REPORTEDLY APPROVED THE PROPOSED CHANGES, WHICH WERE ALREADY IN THE WORKS. (WE HEARD THAT ON MAY 11, SANEZ FLOATED WITH LANATA THE POSSIBILITY OF SUCCEEDING IBANEZ AND ADMITTED THAT HE TOO WAS LEAVING THE CABINET. THE REGIONAL COMMANDERS ALSO WERE APPARENTLY CONSULTED DURING THE WEEK.) ON MAY 12, PRESIDENT MORALES ADDRESSED THE 9TH ARMORED DIVISION, STRESSED THE IMPORTANCE OF FREEDOM OF EXPRESSION IN THE CURRENT ELECTORAL CAMPAIGN, THE NEED FOR NEW MEASURES TO INVIGORATE THE ECONOMY, AND SAID THAT THE MILITARY

SHOULD NOT FEAR RIGHT AND LEFT EXTREMISTS. THE PRESIDENT'S SPEECH WAS PLAYED IN ITS ENTIRETY ON THE EVENING TV NEWS AND WAS FOLLOWED LATER BY THE ANNOUNCEMENT OF THE CABINET CHANGES.

4. THE CABINET SHIFT HAS ALL OF THE HALLMARKS OF A TYPICAL MORALES BURMUDEZ BALANCING MANEUVER TO MAINTAIN A MIDDLE-OF-THE-ROAD CONSENSUS. HIS OBJECTIVES APPEAR TO BE TO
1) INCREASE CONFIDENCE IN THE PRIVATE SECTOR FOR HIS ECONOMIC STRATEGY AND THUS STAVE OFF FINANCIAL COLLAPSE,
2) SHARE THE RESPONSIBILITY OF THE CURRENT ECONOMIC CRISIS WITH THE CIVILIAN SECTOR, 3) RID HIMSELF
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OF CISNEROS AND THUS THE EXTREME RIGHT FACTION OF THE CABINET IN SUCH A WAY THAT AVOIDS RESISTANCE, AND 4) KEEP THE LEFT FROM HAVING SPECIFIC TARGETS, PARTICULARLY BETWEEN NOW AND THE JUNE 4 ELECTIONS.

5. AS FOR BUILDING ECONOMIC CONFIDENCE, THE MOVE HAS TO HAVE A POSITIVE EFFECT, PARTICULARLY IN OBTAINING A BRIDGE LOAN FROM THE PRIVATE BANKS, WHICH IS THE MOST IMMEDIATE OBJECTIVE. HOWEVER, THE FINANCIAL SITUATION HERE IS SO PRECARIOUS (SEE LIMA 4155) THAT A CHANGE IN CABINET ALONE WILL NOT RESOLVE THIS SITUATION. SHARING RESPONSIBILITY FOR THE ECONOMIC CRISIS WITH THE CIVILIAN SECTOR HAS BEEN PART OF THE GOVERNMENT STRATEGY FOR SOME TIME. (SEE LIMA 4044 FOR RICHTER PRADA'S COMMENTS ON THIS SUBJECT.) THE POLITICAL PARTIES HAVE LIKEWISE BEEN DISCUSSING VARIOUS FORMS OF SHARING THE POWER AFTER THE JUNE 4 ELECTION, AND THIS CABINET SHIFT AT LEAST PARTIALLY OPENS THE WAY FOR GREATER CIVILIAN INVOLVEMENT, BUT IT IS SHORT OF A FORMAL POLITICAL ARRANGEMENT WITH THE PARTIES. HOWEVER, WE HAVE A REPORT THAT MORALES BURMUDEZ DISCUSSED THE SILVA APPOINTMENT AT LEAST WITH BEDOYA.

6. AS FOR RIDDING HIMSELF OF CISNEROS, IT APPEARS THAT MORALES BURMUDEZ HAS ACCOMPLISHED THIS VERY DEFTLY, AND THAT CISNEROS WILL GO QUIETLY, QUITE LIKELY AS AMBASSADOR TO PARIS (WHICH HAS A TOUCH OF IRONY IN THAT HE HAS BEEN CRITICIZED RECENTLY FOR HIS PROFLIGATE LIVING). FINALLY, CONCERNING THE REACTION OF THE LEFT, THEY TOO ARE LEFT SOMEWHAT FLATFOOTED. THEY WILL NOT BE PLEASED WITH THE CIVILIAN, TECHNOCRAT ECONOMIC MINISTERS AND THE MORE ORTHODOX POLICIES IMPLIED, BUT THE DEPARTURE OF CISNEROS DOES APPEASE THEM SOMEWHAT, AND THE NEW FINANCE MINISTER, AT LEAST AT THE OUTSET, CANNOT BE CLEARLY TARGETED AS STRONGLY PRO-BUSINESS AND ANTI-LEFT.

7. WE WILL BE REPORTING ADDITIONAL REACTION IN

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POLITICAL AND ECONOMIC CIRCLES AS IT BECOMES AVAILABLE.
RUMORS ARE ALREADY CIRCULATING THAT OTHER CABINET CHANGES
MAY BE IN THE WIND INCLUDING ENERGY AND MINES, HEALTH,
AND EDUCATION WHICH WOULD GIVE CIVILIANS 6 OF THE
15 CABINET POSITIONS.
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